

**TOWNSHIP OF ELLIS**  
**CHEBOYGAN COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED MARCH 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name ELLIS TOWNSHIP	County CHEBOYGAN
Fiscal Year End MARCH 31, 2006	Opinion Date MAY 12, 2006	Date Audit Report Submitted to State JULY 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

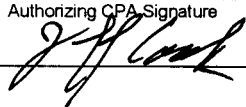
YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) KESKINE, COOK, MILLER & ALEXANDER		Telephone Number (989) 732-7515	
Street Address 100 WEST FIRST STREET		City GAYLORD	State MI
Zip 49735			
Authorizing CPA Signature 	Printed Name JEFF COOK, CPA	License Number 1101011876	

### **Township Officials**

Supervisor

Jim Lapeer

Clerk

Sheryl Hilliker

Treasurer

Carolyn Taglauer

### **Trustees**

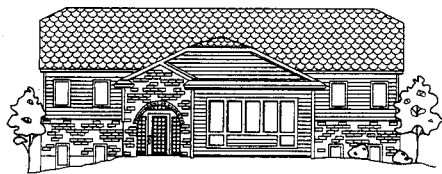
Charles Beebe

Robert Hope

## **Township of Ellis**

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**Keskin, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

### **Independent Auditor's Report**

May 12, 2006

To the Township Board  
Ellis Township  
Cheboygan County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Ellis, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Township of Ellis as of March 31, 2006, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required information. However, we did not audit the information and express no opinion on it.

As described in Note 2, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

*Keshi Cook Miller & Alexander LLP*  
KESKINE, COOK, MILLER & ALEXANDER, LLP

# ELLIS TOWNSHIP

6916 Cut Off Rd.

Afton, MI 49705

Cheboygan County, Michigan

Jim LaPeer- Supervisor/Assessor: 231-238-9606

Sheryl Hilliker-Clerk: 231-238-8803

Carolyn Taglauer-Treasurer: 231-525-8468

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Ellis Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements that immediately follow this section.

### Financial Analysis of the Township as a Whole

Our financial status improved over the last year.

Overall revenues were approximately \$129,000, of which approximately \$14,000 is classified as program revenues, and approximately \$115,000 is classified as general revenues (consisting primarily of state-shared revenues and property taxes). Total revenues have increased slightly over the last two years due to increasing property tax revenues as a result increasing taxable values of properties within the Township. Overall expenses totaled approximately \$105,000. The activities of the Township have remained the same.

Total assets total approximately \$308,000, which consists of approximately \$22,000 in capital assets, approximately \$276,000 in cash and investments, and approximately \$10,000 in receivables.

Net assets as of March 31, 2006 total approximately \$308,000 which represents an increase of approximately \$24,000 from the year ended March 31, 2005. Approximately \$22,000 of the total net assets is invested in capital assets with approximately \$87,000 being unrestricted.

The following table shows in condensed format, the net assets as of March 31, 2006. Prior year information is not available because this is the first year of the implementation of GASB Statement No. 34. Comparative data will be presented in future years.

	<u>Governmental Activities</u>
<b>Assets</b>	
Current assets	\$ 286,000
Noncurrent assets	<u>22,000</u>
Total assets	308,000
<b>Net Assets</b>	
Invested in capital assets - net of related debt	22,000
Restricted	199,000
Unrestricted	<u>87,000</u>
Total net assets	<u><u>\$ 308,000</u></u>

## **Overview of the Financial Statements**

This annual report consists of three parts: management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities. The remaining statements are fund financial statements, which focus on the detailed activities of the general fund (the only fund of the Township).

The notes to the financial statements explain some of the information in the statements and provide more detailed data. Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

## **Government-Wide Statements**

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The Statement of Net Assets includes all of the Township's assets and liabilities. The Statement of Activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities and this is one method to measure the Township's financial health or position.

Over time, increases or decreases in an entity's net assets is an indicator of whether financial position is improving or deteriorating.

To assess overall health of an entity, you may also have to consider tax base changes and other various economic conditions.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the Township's funds. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following funds:

**General Fund:** This fund is used to record all activities of the Township not required to be recorded in a separate fund. The major source of revenue for the general fund is from the Township tax base and revenue sharing from the State of Michigan. The major expenses for the year include the general operating activities of the Township.

**Road Fund:** This fund is used to account for the repairs and maintenance of the Township's roads. Revenues consist primarily of property tax revenue.



### **Capital Asset and Long-Term Debt Activity**

For the year ended March 31, 2006, the Township purchased no capital assets. Depreciation expense for the year totaled \$557. Total capital assets total approximately \$28,000 of which approximately \$6,000 has previously been depreciated.

The Township has no outstanding long-term debt or capital leases.

### **Known Factors affecting Future Operations**

None

### **Contacting Township Management**

This financial report is designed to provide our taxpayers, creditors and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have questions concerning this report, please contact either the Township Supervisor or Clerk at the following addresses: Jim LaPeer, Township Supervisor, 7912 Afton Road, Afton, MI 49705 or Sheryl Hilliker, Township Clerk, 6916 Cut Off Road, Afton, MI 49705.

  
\_\_\_\_\_  
Jim LaPeer, Supervisor

**TOWNSHIP OF ELLIS  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

	<b>Primary Government</b>
<hr/>	
<b>Assets</b>	
Cash and investments	\$ 276,401
Delinquent tax receivable	8,958
Accounts receivable	859
Capital assets, net	21,714
	<hr/>
Total assets	307,932
<b>Net Assets</b>	
Invested in capital assets	21,714
Restricted for road repair and maintenance	199,572
Unrestricted	86,646
	<hr/>
Total net assets	\$ 307,932
	<hr/> <hr/>

See accompanying notes to financial statements

TOWNSHIP OF ELLIS  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006

Functions / Programs	P r o g r a m   R e v e n u e s				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
General government	\$ 44,524	\$ 7,310	\$ -	\$ -	\$ (37,214)
Public safety	19,956	-	-	-	(19,956)
Public works	40,964	6,900	-	-	(34,064)
Total governmental activities	105,444	14,210	-	-	(91,234)
General revenue:					
Property taxes					71,686
State shared revenue					35,053
Interest					4,997
Miscellaneous revenue					3,252
Total general revenue					114,988
Change in net assets					23,754
Net assets - April 1, 2005					284,178
Net assets - March 31, 2006					307,932

See accompanying notes to financial statements

TOWNSHIP OF ELLIS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2006

	<u>Major Funds</u>		
	<u>General</u>	<u>Roads</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments	\$ 89,684	\$ 186,717	\$ 276,401
Property tax receivable	2,792	6,166	8,958
Due from other funds	-	6,689	6,689
Due from Fiduciary Fund	859	-	859
	<hr/>	<hr/>	<hr/>
Total assets	\$ 93,335	\$ 199,572	\$ 292,907
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 <b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
Due to other funds	\$ 6,689	\$ -	\$ 6,689
 <b>Fund Balances:</b>			
Undesignated	86,646	199,572	286,218
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	\$ 93,335	\$ 199,572	\$ 292,907
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

**TOWNSHIP OF ELLIS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006**

<b>Total fund balance - governmental activities (per balance sheet - page 8)</b>	<b>\$ 286,218</b>
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	<u>21,714</u>
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<b>Net assets of governmental activities - page 6</b>	<b><u><u>\$ 307,932</u></u></b>
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See accompanying notes to financial statements

**TOWNSHIP OF ELLIS**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED MARCH 31, 2006**

	<u><b>Major Funds</b></u>		
	<u><b>General</b></u>	<u><b>Roads</b></u>	<u><b>Total</b></u>
<b>Revenue</b>			
Property taxes	\$ 20,225	\$ 44,472	\$ 64,697
Other taxes	6,989	-	6,989
State shared revenue	35,053	-	35,053
Charges for services	7,310	-	7,310
Metro Act	-	2,869	2,869
Interest	2,123	2,874	4,997
Dump cards	6,900	-	6,900
Miscellaneous revenue	383	-	383
Total revenue	78,983	50,215	129,198
<b>Expenditures</b>			
Current			
General government	43,967	-	43,967
Public safety	19,956	-	19,956
Public works	17,416	23,548	40,964
Total expenditures	81,339	23,548	104,887
Excess (deficiency) of revenue over (under) expenditures	(2,356)	26,667	24,311
<b>Other financing sources (uses)</b>			
Operating transfers in (out)	(3,419)	3,419	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(5,775)	30,086	24,311
Fund balance - April 1, 2005	92,421	169,486	261,907
Fund balance - March 31, 2006	<u>\$ 86,646</u>	<u>\$ 199,572</u>	<u>\$ 286,218</u>

See accompanying notes to financial statements

**TOWNSHIP OF ELLIS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

<b>Net Change in Fund Balances - Governmental Activities (Page 10)</b>	<b>\$ 24,311</b>
Amounts reported for governmental activities in the Statement of Activities (page 7) are different because:	
Depreciation expense is recorded in the Statement of Activities, but not in the fund financial statements	(557)
<b>Change in Net Assets of Governmental Activities (Per Statement of Activities - Page 7)</b>	<b>\$ 23,754</b>

See accompanying notes to financial statements

TOWNSHIP OF ELLIS  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
MARCH 31, 2006

<b>Assets</b>	
Cash and investments	\$ 859
	<u>          </u>

<b>Liabilities</b>	
Accounts payable	\$ 859
	<u>          </u>

See accompanying notes to financial statements



**TOWNSHIP OF ELLIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

**NOTE 1: ENTITY**

The Township of Ellis is a general law township of the State of Michigan located in Cheboygan County, Michigan. It operates under an elected board and provides service to its residents in many areas including community enrichment and human services.

The criteria for determining the various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Ellis Township.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of the Township of Ellis are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of the Township of Ellis conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2005, the Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

***Government-Wide Financial Statements***

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. The effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a

TOWNSHIP OF ELLIS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-Wide Financial Statements (Continued)***

distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not included with program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns. The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

*General Fund* - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state distributions, and other inter-governmental revenues.

*Road Fund* – This fund is used to account for the financial activity related to the repair and maintenance of Township roads. Revenues are derived primarily from property taxes.

***Other Funds***

*Fiduciary Funds* - These funds are used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

**TOWNSHIP OF ELLIS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Township departments.

Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available.

Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

**TOWNSHIP OF ELLIS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

***Property Tax Revenues:***

Properties are assessed as of December 31 and the related property taxes are levied on December 1 of the following year. These taxes are due on February 15; uncollected amounts are subsequently added to the county delinquent tax rolls. A county revolving fund normally pays the balance of the Township's tax levy by May 31 of each year. In accordance with GASB 33 "Accounting and Financial Reporting for Nonexchange Transactions", the Township records the property tax revenue when it becomes an enforceable legal claim for the Township. Therefore, all taxes levied on December 1, 2005, are recorded as revenue in the current year. The Township's taxable value for the 2005 tax year totaled \$22,947,467.

The tax rates for the year ended March 31, 2006, were as follows:

<b>PURPOSE</b>	<b>RATE/ASSESSED VALUATION</b>
General	0.8819 mills per \$1,000
Road (Voted)	1.9476 mills per \$1,000

**BUDGET**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township for budgetary funds were adopted on an activity level. Budgets are normally formulated during January and February of each year and a budget hearing is held in March. The Board normally adopts the budget prior to April 1. Amendments are made to the budgets when determined to be necessary throughout the year.

For the fiscal year ended March 31, 2006, the Township experienced no over-expenditures.

**CASH AND INVESTMENTS**

Cash and investments includes bank deposits, money market accounts, and certificates of deposits.

**RECEIVABLES AND PAYABLES**

In general, outstanding balances between funds are reported as "due to/from other funds." All property tax receivables are shown as net of allowance for uncollectible amounts.

**TOWNSHIP OF ELLIS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Land and construction in progress are not depreciated.

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to governments and, as much, include amounts based on informed estimates and judgements of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE 3: CASH AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

**TOWNSHIP OF ELLIS**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED MARCH 31, 2006**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

At March 31, 2006, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 276,401</u>	<u>\$ 859</u>	<u>\$ 277,260</u>

The Township's cash and investments consist entirely of bank deposits as follows:

Demand deposit accounts	\$ 886
Money market accounts	218,636
Certificates of deposit	<u>57,738</u>
	<u>\$ 277,260</u>

**DEPOSITS**

The bank balance of the Township's deposits is \$277,260, of which \$100,886 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity of the Township's activities was as follows:

Governmental Activities	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance March 31, 2006</u>
Capital assets being depreciated:				
Building and grounds	\$ 27,839	\$ -	\$ -	\$ 27,839
Accumulated depreciation				
Building and grounds	5,568	557	-	6,125
Net capital assets	<u>\$ 22,271</u>	<u>\$ (557)</u>	<u>\$ -</u>	<u>\$ 21,714</u>

Depreciation expense was entirely charged to the general government function of the Township.

**TOWNSHIP OF ELLIS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 6: INTERFUND RECEIVABLE AND PAYABLE**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Roads	General	\$ 6,689
General	Trust and Agency - Tax Collection	\$ 859

The balance owing from the General Fund to the Road Fund resulted from the County settlement of property taxes relating to the December 1, 2004 levy which was incorrectly entirely deposited in the General Fund.

The balance owing from the Tax Collection Fund to the General Fund resulted from funds that were disbursed by the Tax Collection Fund subsequent to year-end.

**NOTE 7: RISK MANAGEMENT**

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; error and omission; injuries to employees; and natural disasters. The Township participates in the Michigan Township Participating plan, a self insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage.

**NOTE 8: PENSION PLAN**

The Township contributes to a defined contribution pension plan through Municipal Retirement, Inc. The Township contributes 8% of all eligible employee's wages. During the year ended March 31, 2006, the Township contributed \$3,130 to the plan on behalf of its employees.

**NOTE 9: ACCOUNTING AND REPORTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Ellis Township has applied the provisions of this statement in the accompanying financial statements (including

TOWNSHIP OF ELLIS  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006

**NOTE 9: ACCOUNTING AND REPORTING CHANGE (CONTINUED)**

notes to the financial statements). Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$21,714 that would previously have been reported in the General Fixed Asset Account Group.
- Capital assets at April 1, 2005 previously reported in the General Fixed Asset Account Group have been adjusted by approximately \$23,000 to reflect the historical cost of the Township's capital assets at that date.

For the year beginning April 1, 2005, the Township adopted GASB Statement No. 34. The following adjustments have been made to reflect the cumulative effect of this accounting change.

	<u>Primary Government</u>
Total Fund Balance, April 1, 2005	\$ 261,907
Capitalization of capital assets, net of accumulated depreciation	<u>22,271</u>
Beginning Net Assets, April 1, 2005	<u><u>\$ 284,178</u></u>

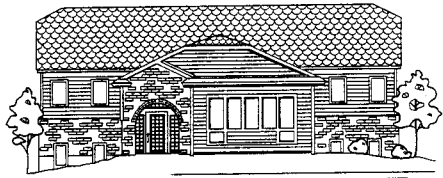


**TOWNSHIP OF ELLIS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Revenue</b>				
Property taxes	\$ 19,900	\$ 19,900	\$ 20,225	\$ 325
Other taxes	6,991	6,991	6,989	(2)
State revenue sharing	37,000	37,000	35,053	(1,947)
Charges for services	6,800	6,800	7,310	510
Interest	1,080	1,080	2,123	1,043
Dump cards	6,900	6,900	6,900	-
Miscellaneous revenue	375	375	383	8
<b>Total revenue</b>	<b>79,046</b>	<b>79,046</b>	<b>78,983</b>	<b>(63)</b>
<b>Expenditures</b>				
Township board	5,100	5,529	4,191	(1,338)
Supervisor	6,000	6,000	5,505	(495)
Elections	200	200	-	(200)
Assessor	8,900	8,900	8,545	(355)
Clerk	7,500	7,500	6,816	(684)
Pension	2,200	3,130	3,130	-
Board of review	1,000	1,000	440	(560)
Treasurer	10,000	10,000	9,995	(5)
Township hall	5,500	5,500	5,345	(155)
Fire protection	19,550	20,015	19,956	(59)
Afton street lights	775	775	768	(7)
Sanitation	18,500	18,500	16,648	(1,852)
Contingency	3,000	4,676	-	(4,676)
<b>Total expenditures</b>	<b>88,225</b>	<b>91,725</b>	<b>81,339</b>	<b>(10,386)</b>
Deficiency of revenue under expenditures	(9,179)	(12,679)	(2,356)	10,323
<b>Other financing uses</b>				
Operating transfers out	-	-	3,419	3,419
Deficiency of revenues under expenditures and other uses	(9,179)	(12,679)	(5,775)	6,904
Fund balance - April 1, 2005	92,421	92,421	92,421	-
Fund balance - March 31, 2006	\$ 83,242	\$ 79,742	\$ 86,646	\$ 6,904

**TOWNSHIP OF ELLIS**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD FUND**  
**YEAR ENDED MARCH 31, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
<b>Revenue</b>				
Property Taxes	40,000	40,000	44,472	4,472
Metro Act	-	-	2,869	2,869
Interest	1,580	1,580	2,874	1,294
Total revenue	<u>41,580</u>	<u>41,580</u>	<u>50,215</u>	<u>8,635</u>
<b>Expenditures</b>				
Public works	48,235	48,235	23,548	(24,687)
Excess (deficiency) of revenue over (under) expenditures	<u>(6,655)</u>	<u>(6,655)</u>	<u>26,667</u>	<u>33,322</u>
<b>Other financing sources</b>				
Operating transfer in	-	-	3,419	3,419
Excess (deficiency) of revenues and other sources over (under) expenditures	<u>(6,655)</u>	<u>(6,655)</u>	<u>30,086</u>	<u>36,741</u>
Fund balance - April 1, 2005	169,486	169,486	169,486	-
Fund balance - March 31, 2006	<u>\$ 162,831</u>	<u>\$ 162,831</u>	<u>\$ 199,572</u>	<u>\$ 36,741</u>



**Keskin, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

May 12, 2006

To the Township Board  
Township of Ellis, Cheboygan County

We have audited the financial statements of Ellis Township for the year ended March 31, 2006, and have issued our report thereon dated May 12, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 28, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Ellis Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ellis Township are described in the notes to the financial statements. During the year ended March 31, 2006, the Township adopted the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Difficulties Encountered in Performing the Audit**

The financial records of Ellis Township was well organized and we are happy to report that there were no significant difficulties in performing the audit.

### **Comments and Recommendations**

In planning and performing our audit of the financial statements of Ellis Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comment and recommendation should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- The Cheboygan County settlement of unpaid property taxes relating to the December 1, 2004 levy occurred June 25, 2005. The total settlement for both the General Fund and the Road Fund was \$9,718. This amount should have been deposited into the Treasurer's tax collection account and disbursed to both the General Fund and the Road Fund as detailed on the Township's Settlement Report. However, the entire amount was deposited into the General Fund and no monies were disbursed to the Road Fund. The amount that should have been disbursed to the Road Fund was \$6,689. We have recorded this amount as a due to / from on your March 31, 2006 financial statements. We recommend that this amount should be transferred from the General Fund to the Road fund immediately. We further recommend that all tax collections, both from Township residents and the County's settlement, be deposited into the Treasurer's tax collection account to be disbursed.

- The budget for the year ended March 31, 2006 was adopted on April 12, 2005. The State of Michigan requires a budget be adopted prior to the beginning of the fiscal year (April 1<sup>st</sup>). We recommend that future budgets be adopted prior to the beginning of the budgeted fiscal year.
- The capitalization policy of Ellis Township which was adopted April 12, 2005 does not contain information regarding the estimated lives of various asset classes. We have forwarded a sample capitalization policy to the Township Clerk. We recommend that the Township's capitalization policy be amended to include estimated asset lives.
- The Treasurer's tax collection account is a fiduciary account which means that the Township assumes a fiduciary role acting as a steward for the tax collections belonging to others (County, Schools, Township's General Fund, etc). As such, the funds in the tax collection accounts should be disbursed on a regular basis (15<sup>th</sup> and 30<sup>th</sup> of the month), and the book balance in these accounts should be \$0 (less a minimal amount that may be required by your bank to keep the account from entering dormant status).

The Ellis Township's Treasurer's tax collection account had a balance of \$859 as of March 31, 2006. We understand that this amount represents interest earned on the funds within the account during the year. Interest income relating to funds held in a fiduciary account belongs to the entities whose money was being held by the fiduciary entity (Ellis Township). As such, the interest income should be allocated to the various entities who receive disbursed funds from the Township on a pro-rata basis, including the General Fund and the Road Fund.

To alleviate this additional administrative work, we recommend that the Township Treasurer disburse funds received into the tax collection accounts at a minimum by the 15<sup>th</sup> and 30<sup>th</sup> of the month (more often during tax collection times). The prompt disbursement of funds will limit the amount of interest earned on the funds.

- The General Fund's checking account's checks only have one signature line. Although the Township Clerk and Treasurer are signing the checks, since the checks only have 1 signature line, financial institutions only requires one signature to process a check drawn on the Township's accounts. We recommend that the Township purchase dual-signature checks and verify with the Township's financial institution that both the Treasurer and Clerk are assigned as dual authorized check signers.
- Ellis Township is currently performing their accounting on the cash basis of accounting. The cash basis of accounting records revenues and expenditures when the corresponding cash is received or disbursed. The State of Michigan requires Michigan Township's to be in compliance with accounting principals generally accepted in the United States of America (GAAP) which requires the modified accrual basis of accounting. The modified accrual basis of accounting records receivables and payables if the corresponding cash is received or disbursed within 60 days of the transaction occurring. For example, a service rendered to the Township in March 2006 and paid for in April 2006 would be recorded as an expense in March 2006 instead of when paid.

Due to the limited activity of the Township, we were able to convert your records to modified accrual accounting to be in compliance with GAAP and issue the Township an unqualified opinion on your financial statements; however, at some point in the future the possibility exists of receiving a qualified opinion due to non-compliance with GAAP.

The current software being used by the Township tracks cash received and disbursed, but is not a balancing general ledger software. The implementation of modified accrual accounting is greatly simplified with balancing general ledger software. We recommend that the Township purchase general ledger software such as Peachtree or Quickbooks and begin to account for the Township's financial activity on the modified accrual basis of accounting.

We hope you find the above comments and recommendations useful. We are available to assist you in implementing these items should the need arise.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

  
Keskin, Cook, Miller & Alexander LLP

Adjusting Journal Entries  
Ellis Township  
March 31, 2006

AJE No.	Account Description	W/P Ref	Account Number	Debits	Credits
1	Taxes receivable	R-1	201-000-150	6,165.64	
1	Property Tax		201-000-408		6,165.64
Road Fund - To record property taxes receivable for delinquent real property taxes					
2	Delinquent Taxes	E-1	101-000-407	11,137.41	
2	Fund Balance		101-000-390		11,137.41
2	Delinquent Taxes		101-000-407	9,717.77	
2	Due to Road Fund		101-000-250		6,688.76
2	Fund Balance		101-000-390		3,029.01
2	Due from General Fund		201-000-151	6,688.76	
2	Fund Balance		201-000-390		6,688.76
To adjust 3/31/06 property tax revenue in General Fund; To record due to / from between General and Roads for 3/31/05 County settlement improperly recorded as revenue in year ended 3/31/06 entirely in General (should have been allocated between Roads & Gen					
3	Property tax receivable	R-1	101-000-150	2,791.59	
3	Property Taxes		101-000-408		2,791.59
3	Delinquent Taxes		101-000-407		90.00
3	Property Taxes		101-000-408	90.00	
General Fund: To record property tax receivable at 3/31/06 for delinquent real property taxes					
4	Metro Act	R-4	201-000-956	3,418.63	
4	Operating transfer from General		201-000-999		3,418.63
To reclassify Metro Act revenue transfer relating to prior years to "miscellaneous					
5	Budget Transfer		101-229-999	930.00	
5	Budget Transfer		101-336-999	465.00	
5	Budget Transfer		101-999-999	529.00	
5	Contingency Fund		101-999-000		5,343.00
5	Operating transfer to Roads		101-999-998	3,419.00	
To eliminate budget transfers out of trial balance -					
6	Tax Checking	C-5's	701-000-101	433.72	
6	Tax IMMA		701-000-102	425.56	
6	Due to General		701-000-201		859.28
6	Due from Tax Account		101-000-152	859.28	
6	IMMA		101-000-666		859.28
To record tax account fund					
7	Accumulated Depreciation	K-1	999-000-101		557.00
7	Depreciation expense - Building & G		999-000-701	557.00	
GASB 34: To record current year fixed asset activity					
Totals				47,628.36	47,628.36